

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-09 NEA-10 IO-13 ISO-00 SP-02 USIA-15
AID-05 NSC-05 CIEP-02 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 PRS-01 /133 W
----- 012086 /53

O R 151544Z DEC 76
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 8766
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
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AMCONSUL BELFAST
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USDEL MTN GENEVA
USDOC WASHDC

UNCLAS SECTION 01 OF 04 LONDON 20241

DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, ASIA

E.O. 11652: N/A
TAGS;##

SUMMARY: FINANCIAL STATISTICS ##
THE CENTRAL GOVERNMENT BORROWING ##

THIS FISCAL YEAR RUNNING
"OW WOLEIY RECORDED DURING
THE SAME PERIOD IN 1975,,675 TYP SMY DUE TO LOCAL
AUTHORITIES AND NATIONALIZEFSXP\$OBTAINING FINANC-
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ING FROM ABROAD OR FROM OTHER NON-CENTRAL GOVERNMENT

SOURCES. INDUSTRIAL AND MANUFACTURING PRODUCTION ROSE VERY SLIGHTLY DURING OCTOBER. RETAIL SALES VOLUME INCREASED BY 1.6 PERCENT IN NOVEMBER, REFLECTING INCREASES IN PENSION AND WELFARE PAYMENTS PLUS PRECAUTIONARY PURCHASES IN ANTICIPATION OF HIGHER INDIRECT TAXES.

THE BANK OF ENGLAND CONTINUED TO SELL LARGE SUMS OF GILTS, AND WAS FORCED TO POSTPONE THE DATE OF PAYMENT OF THE OUTSTANDING SPECIAL DEPOSIT FROM DECEMBER 14 TO JANUARY 28 IN ORDER NOT TO FORCE UP SHORT-TERM INTEREST RATES STILL HIGHER; THIS MOVE DOES NOT REPRESENT ANY BASIC CHANGE IN THE RESTRICTIVE STANCE OF MONETARY POLICY BUT IS DESIGNED TO EASE TEMPORARY STRESS IN THE MONEY MARKET.

STERLING HAD A NERVOUS WEEK, IN THE \$1.67-1.68 RANGE AWAITING THE CHANCELLOR'S DECEMBER 15 MINI-BUDGET-IMF OACKAGE. A NRVTVS FALL IN THE EXCHANGE RATE ON DECEMBER 14 RCFLECTEDPOOR TRADE FIGURES, REOORTED IN DETAIL IN LONDON 20216. END SUMMARY.

.. CENTRAL GOVERNMENT FINANCIAL TRANSACTIONS. THE CENTRAL GOVERNMENT BORROWING REQUIREMENT (CGBR) FOR NOVEMBER WAS 835 MILLION POUNDS COMPARED WITH A SURPLUS OF 273 MILLION POUNDS IN OCTOBER. A MAJOR INFLUENCE IN NOVEMZER WAS THE BRINGING FOWARE BY ONE MONTH OF 250 MILLION POUNDS OF CENTRAL GOVERNMENT PAYMENTS TO LOCAL AUTHORITIES IN ORDER TO PREVENT FURTHER STRAIN ON ALREADY TIGHT MONEY MAKETS. THIS ADDITIONAL PAYMENT BROUGHT THE RATE OF INCREASE IN CENTRAL GTVERNMENT EXPENDITUE BETWEEN NT- VEMBER 1975 AND NOVEMBER 1976 TO 33.1 PERCENT WHILE REV- ENUES ROSE BY 19.1 PECENT TVER THE SAME PERIOEWM FOR THE FIRST 8 MONTHS OF FY 76, THE CGBR WAS 4.460 BILLION POUNDS COMPARED WITH 5.767 BILLION FOR THE SAME PERIOD IN FY 75. THE IMPROVEMENT OF 1.307 BILLION IS DUE LARGELY TO A 1.1 BILLION POUND DECLINE IN BORROWING FROM CENTRAL GOVERNMENT BY NATIONALIZED INDUSTRIES, OTHER PUBLIC CORPORATIONS AND LOCAL AUTHORITIES. THIS DECLINE IS SAID TO REFLECT BORROWINL AZROAD AND, ON INTEREST RATE CONSIDERATIONS, FROM OTHER STERLING MARKETS. THE FOLLOWING TAZLE SUMMARIZES THE NOVEMBER FIGURESWM

POUNDS MILLIONS

1976-77 1 APRIL -

BUDGET 30 NOVEMBER NOVEMBER

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CONSOLIEATED FUND FORECAST WQOUT WQOUY WQTUT 1976
 REVENUE 33,197 18,266 20,938 2,202 WWNYYWW
 EXPENDITURE 39'915 WWWNUT WWTNEE WWNYYUQ 3,554
 DEFICIT MET FROM
 THE NATIONAL
 LOANS FUND - 6,718 -4.213 -4,405 - 469 - 932
 OTHER NATIONAL LOANS
 FUND(1) TRANSACTIONS

RECEIPTS 4,900 2,171 2,872 275 435
PAYMENTS 8,932 4,042 3,647 406 367
TOTAL NET BORROWING
BY NATIONAL
LOANS FUND -10,750 -6,084 -5,180 -600 -86

OTHER FUNDS AND
ACCOUNTS 324 317 720 64 29
CENTRAL GOVERNMENT
BORROWING REQUIRE-
MENT -10.426 -5,767 -4,460 -536 -835

NOTE BY OCT: ## OMISSIONS; CORRECTION TO FOLLOW.

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SIL-01 L-03 H-02 PA-02 PRS-01 /133 W
----- 012128 /53

O R 151544Z DEC 76
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 8767
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
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(1) EXCLUDING NATIONAL DEBT AND OTHER TRANSACTIONS CONCERNED WITH THE FINANCING OF THE BORROWING REQUIREMENT.

2. GILT SALES WERE QUITE LARGE THIS WEEK. THE GOVERNMENT BROKER'S STOCK OF THE MEDIUM TAP, THE 3 PERCENT 1982 WAS EXHAUSTED ON MONDAY IN A DAY OF EXTREMELY ACTIVE TRADING. IT IS ESTIMATED THAT 250 MILLION POUNDS OF GILTS (AT PAR VALUE) WERE SUPPLIED BY THE GOVERNMENT BROKER DURING THAT DAY, AND PERHAPS 875 MILLION POUNDS OF GILTS THUS FAR IN DECEMBER. THE SALE OF GILTS IS REGARDED AS OF CRUCIAL IMPORTANCE IN CONTROLLING THE GROWTH OF THE MONETARY AGGREGATES AS SHORTER-TERM FINANCING THROUGH THE UNCLASSIFIED

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SALE OF TREASURY BILLS SIMPLY ADDS TO THE RESERVE BASE OF THE BRITISH MONETARY SYSTEM.

3. THE DATE FOR THE PAYMENT OF 370 MILLION POUNDS IN SPECIAL DEPOSITS HAVING BEEN ONCE CHANGED FROM NOVEMBER 15 TO DECEMBER 14 WILL BE SHIFTED AGAIN, THIS TIME TO JANUARY 28. THE CALL FOR SPECIAL DEPOSITS, ANNOUNCED OCTOBER 7, IS IN ADDITION TO ANY DEPOSITS THAT MIGHT BE REQUIRED UNDER THE "CORSET" OR ANY SUMS THAT THE BANKING SECTOR MIGHT CHOOSE TO HOLD WITH THE BANK OF ENGLAND TO SATISFY ITS RESERVE REQUIREMENT AGAINST ELIGIBLE LIABILITIES. THE BANK OF ENGLAND STRESSED THAT THE POSTPONEMENT DOES NOT REPRESENT ANY CHANGE IN ITS RESTRICTIVE MONETARY POLICY, BUT IS SIMPLY DESIGNED TO EASE TEMPORARY STRESS IN THE MONEY MARKET. THE LATEST BANKING FIGURES INDICATED THAT MONETARY GROWTH WAS IN EXCESS OF THE PENALTY FREE LEVEL ALLOWED UNDER THE CORSET AND THE AUTHORITIES FEEL THAT BANKS WILL ATTEMPT TO RESTRICT LENDING CONSIDERABLY DURING THE COMING WEEKS AS A CONSEQUENCE. GILT SALES MOREOVER HAVE BEEN QUITE LARGE, AND THE AUTHORITIES FEEL THAT THIS HAS PLACED A GREAT DEAL OF PRESSURE ON BANKS' RESERVE POSITIONS. THE AUTHORITIES FEEL THAT THE ADDITIONAL PRESSURE ON THE MONEY MARKET THAT THE SPECIAL DEPOSIT PAYMENTS WOULD ENGENDER WOULD DRIVE SHORT-TERM INTEREST RATES UP TEMPORARILY, POSSIBLY UPSETTING PLANS FOR FINANCING PRIVATE INVESTMENT.

4. THE BANK OF ENGLAND HAS TAKEN ADDITIONAL MEASURES TO EASE TIGHT MONEY MARKET CONDITIONS AS IT ADVANCED SUBSTANTIAL SUMS TO REDISCOUNT TREASURY AND COMMERCIAL BILLS OF THE DISCOUNT HOUSES AND SOME BANKS. THIS IS THE FIRST WEEK SINCE MARCH 1975 THAT THE BANK OF ENGLAND HAS REDISCOUNTED COMMERCIAL PAPER.

5. INDUSTRIAL PRODUCTION. INDUSTRIAL OUTPUT ROSE SLUGGISHLY IN OCTOBER. THE INDEX OF INDUSTRIAL PRODUCTION (1970 EQUALS 100) STOOD AT 102.5, A RISE OF 0.1 PERCENT FROM THE REVISED SEPTEMBER FIGURE OF 102.4. THE SLIGHTLY NARROWER INDEX OF MANUFACTURING PRODUCTION ROSE BY 0.1 PERCENT TO 103.3 FROM A REVISED SEPTEMBER FIGURE OF 103.2. ALTHOUGH OVERALL INDUSTRIAL PRODUCTION HAS RISEN UNCLASSIFIED

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1.9 PERCENT SINCE OCTOBER 1975, THE INDEX STILL HAS NOT RETURNED TO ITS 1976 PEAK OF 104.0 REACHED LAST MAY. SMALL INCREASES IN METAL MANUFACTURING, ENGINEERING AND ALLIED INDUSTRIES, TEXTILES AND MINING WERE ALL BUT OFFSET BY DECLINES IN THE OUTPUT OF FOOD, CHEMICALS, GAS, ELECTRICITY AND WATER AND OTHER MANUFACTURING.

BREAKING DOWN THE OCTOBER CHANGES BY MARKET SECTORS REVEALS THAT THE OUTPUT OF CONSUMER GOODS INDUSTRIES WAS UNCHANGED IN OCTOBER, INVESTMENT GOODS OUTPUT ROSE BY 1.0 PERCENT WHILE INTERMEDIATE GOODS PRODUCTION WAS 1.0 PERCENT LOWER.

THERE HAS BEEN ALMOST NO CHANGE IN THE LEVEL OF INDUSTRIAL PRODUCTION OVER THE PAST SIX MONTHS. HARDEST HIT HAVE BEEN INVESTMENT GOODS INDUSTRIES WHOSE OUTPUT HAS REMAINED AT OR BELOW 1970 LEVELS FOR FIVE CONSECUTIVE QUARTERS. HOWEVER, SURVEY EVIDENCE OF A MODEST 1977 RENAISSANCE IN MANUFACTURING INVESTMENT MAY BRING WELCOME RELIEF TO THIS SECTOR.

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SIL-01 L-03 H-02 PA-02 PRS-01 /133 W

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O R 151544Z DEC 76

FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 8768
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
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6. RETAIL SALES. THE INDEX OF RETAIL SALES VOLUME (1971
EQUALS 100) WAS PROVISIONALLY ESTIMATED TO HAVE RISEN BY
1.6 PERCENT IN NOVEMBER. THE INDEX STOOD AT 109.0 IN NO-
VEMBER COMPARED WITH 107.3 A MONTH EARLIER. ANNUAL IN-
CREASES IN PENSION AND WELFARE PAYMENTS PLUS PRECAUTION-
ARY PURCHASES IN THE WAKE OF RUMORED INDIRECT TAX IN-
CREASES WERE THE MAIN FACTORS BEHIND THE HIGHER VOLUME OF
SALES. WHILE THE INDEX IS NOW 3.6 PERCENT ABOVE ITS LEVEL
OF 12 MONTHS AGO, AVERAGE RETAIL SALES VALUE OVER THE
FIRST 11 MONTHS OF 1976 DECLINED BY 0.7 PERCENT WHEN COM-
PARED WITH THE SAME PERIOD IN 1975. THERE ARE SIGNS THAT
THE CURRENT SURGE IN PURCHASES HAS CONTINUED INTO DECEMBER.
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HOWEVER, WITH THE CONTINUING SQUEEZE ON REAL INCOMES, IT
SEEMS LIKELY THAT THE VOLUME OF SALES DURING THE FIRST
QUARTER OF 1977 MAY BE LOWER THAN MIGHT HAVE BEEN EXPECTED
AS CONSUMERS BRING FORWARD PURCHASES INTO THE LAST TWO
MONTHS OF 1976.

7. THE DEPARTMENT OF TRADE RELEASED STATISTICS ON
NOVEMBER'S EXTERNAL TRADE, SHOWING A VISIBLE TRADE DEFIC-
IT OF 510 MILLION POUNDS AND A CURRENT ACCOUNT DEFICIT
OF 310 MILLION. THESE DEFICITS COMPARE WITH A VISIBLE
TRADE DEFICIT IN OCTOBER OF 354 MILLION POUNDS AND A CUR-
RENT ACCOUNT DEFICIT OF 154 MILLION POUNDS. THE PRESS
RELEASE ATTRIBUTED THE DETERIORATION TO AN INCREASE IN
CRUDE OIL IMPORTS WHICH WAS PRESUMED TO HAVE OC-

CURRED IN ANTICIPATION OF AN OIL PRICE INCREASE. THE
TRADE FIGURES, HOWEVER, SHOWED VERY LITTLE THAT WAS EN- /
COURAGING, THE VOLUME OF EXPORTS, INTER ALIA, FALLING
2.4 PERCENT FROM OCTOBER'S LEVEL. (CF. LONDON 20216).

8. EXCHANGE RATE AND GOLD

EFFECTIVE			
DATE	EXCHANGE RATE (\$)	DEPRECIATION (PERCENT)	GOLD (\$)
12/8	1.6715	44.7	136-1/8
12/9	1.6710	44.7	137-1/8
12/10	1.6705	44.8	138-1/8
12/13	1.6815	44.4	135-1/8
12/14	1.6760	44.6	135-3/8

CHANGE 12/7-12/14 UP 0.0045 UNCHANGED UP 1-1/4

9. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
12/8	1.70	4.60	8.10
12/9	1.65	4.55	8.05
12/10	1.62	4.50	8.05
12/13	1.62	4.31	7.81
12/14	1.57	4.20	7.55

CHANGE 12/7-12/14 NARROWED 0.05 NAR. 0.29 NAR. 0.45
(ALL FIGURES IN CENTS)

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O R 151544Z DEC 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 8769
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10 EURODOLLAR INTEREST RATES

DATE				
12/8	4-3/4	4-7/8	5-1/8	
12/9	4-3/4	5	5-1/8	
12/10	5	5	5-1/8	
12/13	4-7/8	5	5-1/4	
12/14	4-7/8	5	5-1/4	
CHANGE 12/7-12/14	UP	1/8	UP	1/8

11. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST

DATE	RATE DIFFERENTIAL
12/8	9-23/32

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12/9	9-1/2
12/10	9-3/8
12/13	9-3/16
12/L4	9-1/16

CHANGE 12/7-12/14 DN. 5/32

12. STERLING CERTIFICATES OF DEPOSIT

DATE			
12/8	14-29/32	14-1/2	13-5/8
12/9	14-7/8	14-3/8	13-7/16
12/10	14-13/16	14-5/16	13-5/16
12/13	14-27/32	14-1/8	13-3/16
12/14	14-25/32	13-7/8	12-15/16
CHANGE 12/7-12/14	UP	1/32	DN 19/32 DN 23/32

13. THE MINIMUM LENDING RATE WAS UNCHANGED AT 14-3/4 PERCENT AT FRIDAY'S TREASURY BILL AUCTION. THE TREASURY BILL RATE FELL 0.0121 PERCENT TO 14.0054, AS 1585.89 MILLION POUNDS IN APPLICATIONS WERE RECEIVED FOR THE 300 MILLION POUNDS IN BILLS OFFERED. THIS FRIDAY ANOTHER 300 MILLION POUNDS IN BILLS WILL BE OFFERED TO REPLACE 500 MILLION POUNDS IN MATURING BILLS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS, FINANCIAL DATA, ANTIINFLATIONARY PROGRAMS, GOVERNMENT EXPENDITURES
Control Number: n/a
Copy: SINGLE
Draft Date: 15 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON20241
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760461-1212
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761241/aaaabjkq.tel
Line Count: 448
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 9
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: schwenja
Review Comment: n/a
Review Content Flags:
Review Date: 15 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 JUN 2004 by hattaycs>; APPROVED <23 AUG 2004 by schwenja>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD DECEMBER 9 -15
TAGS: ECON, EFIN, UK
To: DEPT WASHDC SECSTATE WASHDC BONN BRUSSELS DUBLIN NEW DELHI PARIS ROME
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006